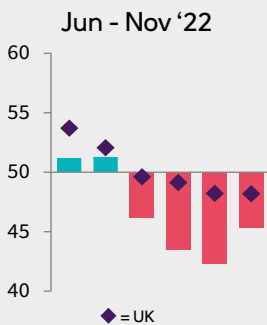


NatWest South West PMI®

Business activity falls at softer, but still sharp rate

South West Business Activity Index



Key findings

Output contracts again amid sustained decline in new orders

Employment growth remains weak

Cost pressures intensify

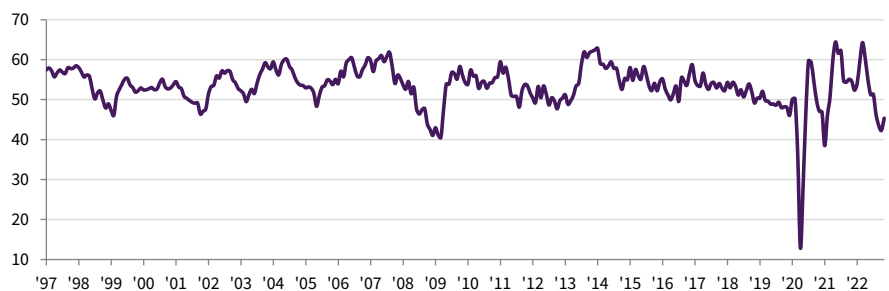
At 45.3 in November, the headline NatWest South West PMI® Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – signalled a fourth successive monthly decline in business activity across the region. Despite picking up from October’s recent low of 42.3 to a three-month high, the latest reading was indicative of a sharp rate of contraction that outpaced that seen at the national level. Anecdotal evidence linked lower output to a weak economic climate, intense cost pressures and subsequent cuts to client spending.

Paul Edwards, Chair, NatWest South West Regional Board, commented:

“Business conditions across the South West private sector remained challenging in November, with the latest PMI survey pointing to a further marked drop in output. The deterioration in economic conditions and the cost of living crisis led to belt-tightening among both businesses and households, with overall new work falling for the fifth month in a row. Notably, cost pressures intensified in November, with input costs and output charges rising at sharper rates amid reports of higher staff wages, utility bills and raw material costs. Although employment increased again, the rate of job creation remained marginal as efforts to contain costs led to the non-replacement of voluntary leavers at some firms. Until there is a meaningful improvement in demand conditions and an easing of cost pressures, employment and output are likely to remain under pressure in the months ahead.”

South West Business Activity Index

sa, >50 = growth since previous month



Contents

- [About the report](#)
- [Demand and outlook](#)
- [Exports](#)
- [Business capacity](#)
- [Prices](#)
- [UK Sector PMI](#)
- [UK Regional PMI](#)
- [Data summary](#)
- [Contact](#)

About the South West PMI® report

The NatWest South West PMI® is compiled by S&P Global from responses to questionnaires sent to South West companies that participate in S&P Global's UK manufacturing and services PMI surveys.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Business Activity Index. This is a diffusion index

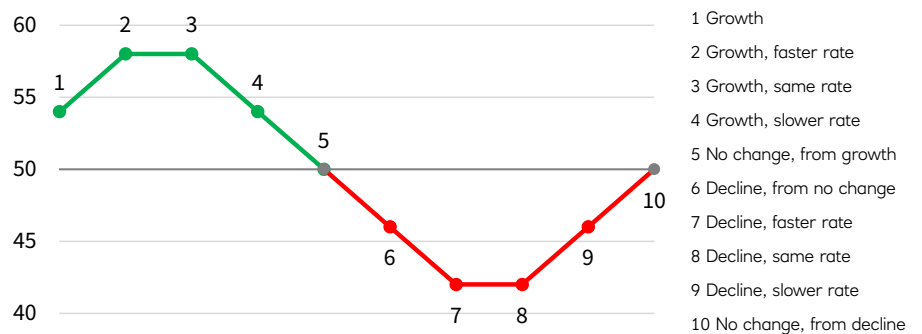
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'South West PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Index interpretation

50.0 = no change since previous month



Demand and outlook

New work continues to fall markedly in November

Total new business placed with South West private sector companies continued to fall sharply in November. This was despite the rate of contraction easing from October's 21-month record. According to survey respondents, clients had cut back spending due to uncertainty around the outlook, rising costs and tighter financial conditions.

New orders also declined at the national level, though the rate of reduction remained softer than that seen in the South West.

Business confidence improves to five-month high

After dropping to a record low in September and October, business confidence regarding output over the next 12 months improved in November. The degree of positive sentiment was the highest seen in five months, albeit well below the historical series trend. Firms were often hopeful that demand conditions will improve over the course of 2023, and that new product launches could also support growth. However, a number of companies expressed concerns over the weaker economic climate, cost of living crisis and future consumer spending.

Exports

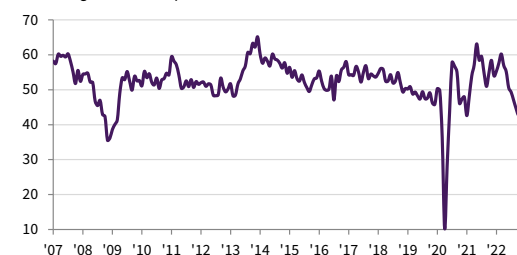
Modest deterioration in export conditions

The South West Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the South West. This produces an indicator for the economic health of the region's export markets.

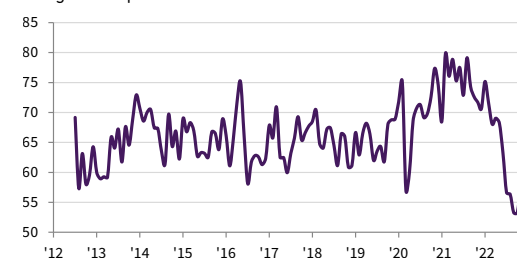
At 48.8 in November, the index slipped from 49.8 in October and signalled a deterioration in overall export conditions for the second month running. Though modest, the pace of decline was the quickest seen for nearly two-and-a-half years.

The lower index reading reflected falls in output across four of the five top export markets for the region, with Germany and the US noting the steepest rates of contraction. The UAE continued to buck the trend, however, and reported a further sharp increase in business activity.

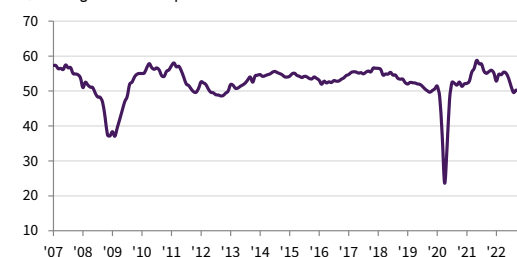
New Business Index
sa, >50 = growth since previous month
44.3
Nov '22



Future Activity Index
>50 = growth expected over next 12 months
58.2
Nov '22



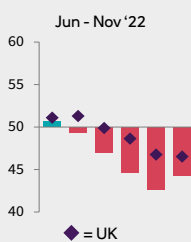
Export Climate Index
sa, >50 = growth since previous month
48.8
Nov '22



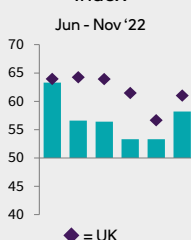
Top export markets, South West

Rank	Market	Weight	Output Index, Nov '22
1	USA	20%	46.4
2	Germany	11%	46.3
3	France	9%	48.7
4	UAE	4%	59.9
5	Ireland	4%	48.8

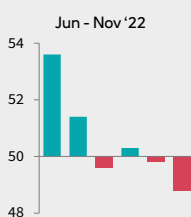
New Business Index
Jun - Nov '22



Future Activity Index
Jun - Nov '22



Export Climate Index
Jun - Nov '22

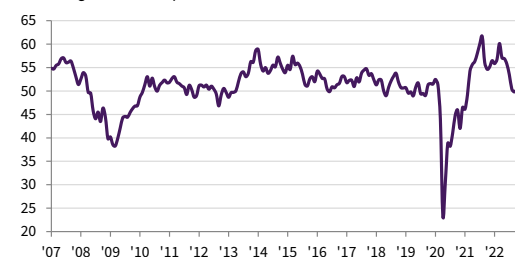


Business capacity

Employment growth remains marginal

Although staffing levels across South West private sector firms increased for the second month in a row in November, the rate of job creation remained marginal overall. The pace of payroll growth also remained weaker than that seen at the national level, despite the latter easing to a 21-month low. While some companies expanded their workforce numbers due to efforts to fill long-standing vacancies and to enhance capacity, others noted that the non-replacement of voluntary leavers had reduced staffing levels.

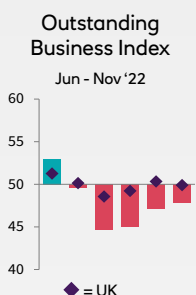
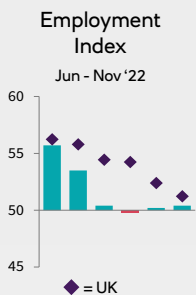
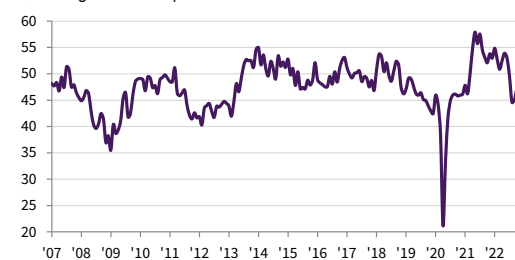
Employment Index 50.4
 sa, >50 = growth since previous month Nov '22



Softer fall in outstanding workloads

The seasonally adjusted Outstanding Business Index signalled a reduction in backlogs of work at South West private sector firms for the fifth successive month in November. That said, the rate of depletion was the slowest seen since July and only modest. According to panel members, lower intakes of new business had enabled them to work through unfinished orders.

Outstanding Business Index 47.8
 sa, >50 = growth since previous month Nov '22



Across the UK as a whole, backlogs of work were broadly unchanged after a marginal upturn in October.



Prices

Sharpest increase in input costs since July

Latest survey data pointed to a renewed acceleration in the rate of input cost inflation across the South West private sector during November. Notably, the rate of increase was the steepest since July and rapid overall. Where higher expenses were reported, companies often attributed this to greater staff, energy, raw material and food costs.

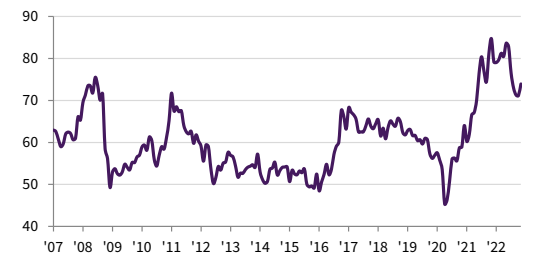
The rate of input cost inflation also quickened across the UK as a whole, and remained sharper than that seen in the South West.

Output charge inflation quickens in November

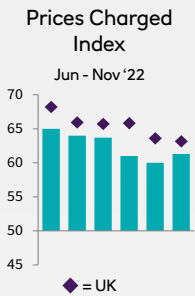
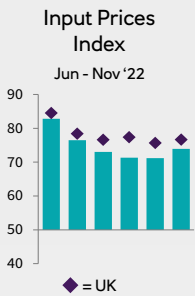
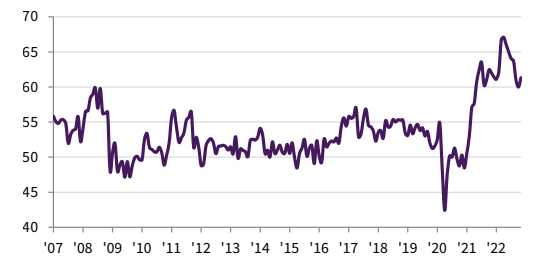
As has been the case in each month since January 2021, prices charged by South West private sector companies increased in November. In line with the trend for input costs, the rate of inflation quickened on the month and was the sharpest seen since August. However, the rate of increase remained the weakest seen of all 12 UK regions.

Companies that raised their selling prices often linked this to the pass-through of additional expenses to customers.

Input Prices Index
sa, >50 = inflation since previous month
73.9
Nov '22



Prices Charged Index
sa, >50 = inflation since previous month
61.3
Nov '22



UK Sector PMI

Sector specialisation: South West

Location quotients (LQs) are useful measures of regional economic specialisation and can identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that sector. An LQ greater than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for the South West, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

South West specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Nov '22*
1	Transport	1.50	48
2	Electrical & Optical	1.45	48
3	Other Manufacturing	1.02	48
4	Mechanical Engineering	0.99	48
5	Basic Metals	0.90	45
6	Timber & Paper	0.86	42
7	Food & Drink	0.83	52
8	Textiles & Clothing	0.78	45
9	Chemicals & Plastics	0.67	45

South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Nov '22*
1	Hotels, Restaurants & Catering	1.42	48
2	Business-to-business Services	1.09	48
3	Personal & Community Services	0.98	48
4	Transport & Communication	0.88	48
5	Financial Intermediation	0.86	48
6	Computing & IT Services	0.69	52

UK sector focus

Computing & IT Services

Computing & IT Services was the UK's top-performing sector by far in the three months to November. In fact, it was the only part of the services economy to see a rise in business activity.

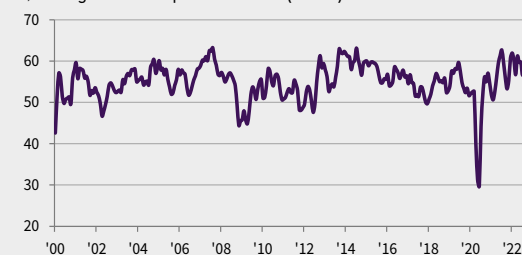
The sector did, however, exhibit a loss of momentum, with the rate of business activity growth slowing to its weakest since the opening quarter of 2021. This reflected a softening trend in new business.

Computing & IT Services firms remained optimistic about the year-ahead outlook, and more so than any other services sector, which in turn helped drive a sustained rise in employment. That said, both expectations and the pace of job creation eased to the lowest since late-2020.

Cost pressures remained much higher than normal, according to latest data. However, they were relatively subdued compared to other parts of the services economy, with the rate of input cost inflation the lowest among the six monitored sectors.

Output Index

sa, >50 = growth since previous month (3mma)*



*3-month moving average



UK Regional PMI overview

Business Activity

All 12 monitored regions recorded a further fall in business activity in November. However, rates of contraction slowed in just over half of cases, including Wales and the North East, the two top-ranked areas, where activity came close to stabilising. Scotland recorded the most marked fall in output, followed by the South West.

Employment

Workforce numbers rose across the majority of regions and nations in November, albeit more slowly in most instances. The West Midlands saw the fastest pace of job creation, moving ahead of the South East in the rankings. The East Midlands and North East went against the trend and recorded lower employment.

Future Activity

Business expectations improved almost universally in November. Yorkshire & Humber was the most optimistic region and saw the joint-sharpest increase in sentiment from the previous month, with Wales. Firms in Northern Ireland and the North East remained pessimistic, albeit less so than in October.

* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.

Business Activity Index

sa, >50 = growth since previous month, Nov '22



Employment Index

sa, >50 = growth since previous month, Nov '22



Future Activity Index

>50 = growth expected over next 12 months, Nov '22



Index summary

South West

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
Jun '22	51.2	50.6	53.6	63.3	55.7	53.0	82.8	65.0
Jul '22	51.3	49.3	51.4	56.6	53.5	49.6	76.5	64.0
Aug '22	46.2	47.0	49.6	56.4	50.4	44.6	73.0	63.7
Sep '22	43.5	44.6	50.3	53.3	49.8	45.0	71.3	61.0
Oct '22	42.3	42.7	49.8	53.3	50.2	47.1	71.2	60.0
Nov '22	45.3	44.3	48.8	58.2	50.4	47.8	73.9	61.3

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About NatWest

NatWest serves customers in England and Wales, supporting them with their personal, private, and business banking needs. NatWest helps customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement.

Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist entrepreneurial support.

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

ihsmarkit.com/products/pmi.html

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